VARIABLE TAX RATES:

A Guide to Implementation

Province of British Columbia
Ministry of Municipal Affairs

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1.0 USING THIS GUIDE

1.1 Purpose

This is a guide to the implementation of variable property tax rates in British Columbian municipalities. The variable tax rate system has now fully replaced the uniform tax rate system wherein, for the most part, the same tax rate was levied on all classes of real property. Under the variable tax rate system, tax rates vary with each class of real property and are levied on an actual value tax base. This is a guide to all aspects of the new variable tax rate system.

The transition to the variable tax rate system has been accomplished in two stages. In 1983, municipal taxation alone came under the variable tax rate system. Taxation for all other purposes remained under the uniform tax rate system. This stage of the transition was authorized by Bill 7 of 1983, the Property Tax Reform Act (No. 1), and was described in an earlier version of this guide published in March 1983. In 1984, property taxation for all other purposes, including schools and hospitals, was brought under the variable tax rate system. This was authorized under Bill 12 of 1983, the Property Tax Reform Act (No. 2).

This guide has been written in order to explain the new variable tax rate system and to facilitate transition from the old to the new tax system. The guide therefore goes beyond a mere summary of key features of the variable tax rate system: it describes and recommends a full set of analytical and implementation procedures. An important purpose of this guide is to explain how municipal officials can choose general municipal tax rates which will maintain a fair, stable and predictable distribution of municipal taxes in each municipality.

1.2 Organization

Chapter 2.0 is an introduction to the changes to local finance brought about by the combined effects of the 1983 Property Tax Reform Acts (Nos. 1 and 2) and Bill 7 of 1984, the Assessment Amendment Act. Non-technical readers and those wishing only an overview of the variable tax rate system may wish to confine themselves to this chapter.

General municipal taxation is the subject of chapter 3.0. The chapter is a full technical discussion of the nature of the new power of tax distribution which has been delegated to municipalities. The technical discussion is illustrated with the rate setting "decision" of a hypothetical municipality.

Chapters 4.0 and 5.0 deal with property taxation for other than general municipal purposes. Chapter 4.0 deals with procedures where municipal officials are obliged by legislation to calculate tax rates but have been given no authority to vary the burden of taxation among property classes. This chapter is a residual chapter in that matters not specifically dealt with in chapters 3.0 or 5.0 are dealt with here. Chapter 5.0 deals with procedures where municipal officials have no role whatsoever in rate setting, namely school taxation and taxation for BCAA and MFA purposes.

2.0 OVERVIEW OF PROPERTY TAX REFORM

This chapter considers the combined effects of the Property Tax Reform Acts (Nos. 1 and 2), passed in the 1983 legislative session, and Bill 7 of 1984, the Assessment Amendment Act. The variable tax rate concept is introduced in general terms, important changes to assessment practices are summarized and some significant ancillary consequences of the new regime of actual value assessment are catalogued.

2.1 Variable Tax Rate Concept

2.1.1 Property Tax System

British Columbia's property tax system has several components. The largest components in terms of an individual's tax burden and a jurisdiction's aggregate tax yield are:

- general municipal tax; and
- school tax.

There are several other components of the tax system in addition to these, for example:

- municipal debt tax;
- tax for specified areas;
- regional hospital district tax;
- tax for Assessment Authority purposes; and
- tax for Municipal Finance Authority purposes.

All real property taxes are levied upon one of five distinct real property tax bases: a) the general municipal base; b) the hospital base; c) the residential school base; d) the non-residential school base; or e) the special transit base defined in section 12 of the B.C. Transit Act. Each of these tax bases consists of a different mixture of the nine property classes established under the Assessment Act. Definitions of each property class appear as appendix one of this guide.

Under the variable tax rate system, tax rates may be varied by property class; but within each property class, taxes must, for the most part, be uniform. Since 1984, taxes are always levied on actual value less exemptions.

2.1.2 General Municipal Taxation

The property tax reform legislation introduced in 1983 has the effect of delegating to municipal councils the responsibility for distributing the burden of general municipal taxes among the eight classes of real property taxable by municipalities. Prior to 1983, this responsibility belonged to the provincial government. Now, municipal councils, as part of the budget process, must continue to decide upon the size of the tax burden; but they must also decide how much of this burden is to rest with each property class.

For general municipal taxation, councils are given almost complete autonomy in exercising their new responsibility for tax distribution. In its simplest terms, the advent of variable tax rates enables municipal officials to:

- establish revenue targets for each property class in the municipality; and
- set a tax rate to yield the revenue desired from each class.

In its most basic form, municipal councils can exercise their tax distribution discretion as depicted in figure one. Some councils may wish to do no more. Others, however, will want a fuller analysis of their tax distribution options and the consequences of their tax distribution decisions. Chapter 3.0 following has been written with this in mind.

2.1.3 Other Taxation

The municipal general tax is but one of several types of property tax in British Columbia's tax system. Municipal

Figure One. Simple Illustration of Variable Tax Rate System, Municipal General Taxation

Property Class	Net Taxable Value ($)	Revenue Target ($)	Property Tax Rate ($ per thousand)
1. Residential	5 000 000	22 500 (21.4%)	4.50
2. Utility	1 000 000	15 700 (14.9%)	15.70
3. Forestry	0	0 (0.0%)	10.00
4. Machinery	N/A	N/A (N/A)	N/A
5. Industrial	1 500 000	30 000 (28.5%)	20.00
6. Business	2 000 000	30 000 (28.5%)	15.00
7. Tree farm	500 000	5 000 (4.8%)	10.00
8. Seasonal	150 000	675 (0.6%)	4.50
9. Farm	300 000	1 350 (1.3%)	4.50
		105 225 (100%)	

Notes:
The calculations for arriving at the variable tax rates in figure one are as follows:

1. Net taxable values for each property class are supplied annually by the Assessment Authority (class 4 machinery is not taxable by municipalities).
2. The amount to be raised by taxation is $105 225 in this exemple. The amount to be raised is a budget decision.
3. The amount to be raised is then distributed among the taxable property classes. For example, the residential class is here expected to contribute 21.4% of the amount required. Tax distribution is a subject for council decision.
4. A tax rate to raise the amount required from each class may then be calculated. In this example, dividing the revenue target for the residential class ($22 500) by net taxable value in thousands yields the residential tax rate, $4.50 per $1000. Other rates may be calculated in a similar fashion.

councils have almost complete discretion in setting tax rates for general municipal purposes. However, with respect to all other components of the property tax system, councils have no tax distribution discretion whatsoever. In some cases, municipal councils are simply not involved in rate setting. This is the case with respect to:

- school taxes; and
- taxes for Assessment Authority and Municipal Finance Authority purposes.

Chapter 5.0 following discusses procedures relevant here. In other cases, municipal officials are obliged by legislation to calculate appropriate tax rates but have been given no authority to vary the burden of taxation falling to each property class. This is the case with respect to:

- municipal debt tax;
- taxation for municipal specified areas;
- taxation for all bodies, including regional districts and regional hospital districts, using the requisition system of finance.

Chapter 4.0 following discusses relevant procedures.

2.2 New Assessment System

Significant changes in real property assessment practices have been announced in Bill 7 of 1984, the Assessment Amendment Act. In 1983, general municipal purposes taxation was switched to an actual value less exemptions basis. In 1984, the basis for all other property taxes was switched to actual value less exemptions. Also beginning in 1984, the Assessment Act was amended to introduce a two-year assessment cycle and to change key dates for valuation, inventory, roll completion and roll authentication. The transition to the two-year assessment cycle will be accomplished as shown in figure two. Full details on these and other changes to the assessment system may be obtained from the Assessment Authority.

Figure Two. Transition to Two-Year Assessment Cycle

Tax Year	Change
1984	• a full roll will be completed • valuation date remains December 31, 1982 (that is, the same as for the 1983 tax year)
1985	• a full roll will be completed • valuation date will be July 1, 1984 • inventory and roll completion dates will be September 30, 1984 • court of revision filing deadline will be October 31, 1984 • roll authentication date will be December 31, 1984
1986	• a revised roll supplementing the 1985 roll will be completed • the revised roll contains values mainly for properties whose physical characteristics or ownership has changed • valuation date remains July 1, 1984 • inventory and roll completion dates will be September 30, 1985 • court of revision filing deadline will be October 31, 1985 • roll authentication date will be December 31, 1985
Odd Years Thereafter	• a full roll will be completed for all subsequent odd tax years • all key dates are advanced to the preceding year
Even Years Thereafter	• a revised roll will be completed for all subsequent even tax years • all key dates except the valuation date are advanced to the preceding year

2.3 Miscellaneous Effects of Actual Value Assessment

2.3.1 Tax Rate Limits for Specific Functions

Certain local government functions, most notably regional district functions, have traditionally been subject to tax rate limits. The Property Tax Reform Acts (Nos. 1 and 2) transform all property tax bases from assessed value to actual value, necessitating a change to the method of tax rate limitation. Municipal Affairs Circular 84:04 issued January 11, 1984 describes the new procedures.

2.3.2 Borrowing Limits

The calculation of municipal borrowing limits has also been changed by the switch to actual value assessment. Section 7 of the Property Tax Reform Act (No. 1) introduces new procedures. Essentially, the three-year moving average technique still applies. However, the Minister of Municipal Affairs will supply to every municipality a set of percentages to be used to transform actual values to a form consistent with the old assessed value system. It should be noted that procedures for 1984 will be unique. The new method for calculating borrowing limits will not be standardized until 1985.

2.3.3 Regional District Apportionment

The switch to actual value assessment has given rise to special procedures for handling regional district apportionment calculations. These special procedures will ensure that significant, unintended shifts in cost apportionment do not occur. Prior to 1983, the most common practice was to apportion costs on the basis of the net taxable value of land and improvements on the hospital base. Sometimes apportionment was based on the general

municipal base. In either case, beginning in 1984 the Ministry of Municipal Affairs will supply "converted" hospital and general municipal values for apportionment purposes. Converted values are actual values (less exemptions) multiplied by a factor equivalent to what was formerly known as the class percentage. These converted values, it is stressed, are to be used by local officials only for cost apportionment. Municipal Affairs Circular 84:12 issued March 1, 1984 to regional districts provides full details.

2.3.4 Revenue Sharing

Assessment information is used in the calculation of revenue sharing part VIII (unconditional) grants and in the calculation of debt retirement grants under the old sewer and water programmes (see Municipal Affairs Circular 83:30 issued July 8, 1983). As for apportionment, the adoption of actual value assessment has created a need for new procedures in order to prevent significant, unintended shifts in grant disbursement. For grant calculation purposes, therefore, "converted" values will be prepared by the Ministry of Municipal Affairs. Converted values are actual values (less exemptions) multiplied by a factor equivalent to what was formerly known as the class percentage. For full details, see Municipal Affairs Circular 84:16 issued March 9, 1984.

Some municipalities receive sewer and water grants on a specified area basis and are responsible for making their own grant calculations. In these cases, municipal officials are advised to calculate assessment class percentages using the assessment class multiples issued annually by the province ("class multiple" is defined in section 4.2 of this guide). For example, an industrial class multiple of 3.4 is

equivalent to an industrial class percentage of 34%. It can be assumed that the residential class percentage is fixed at 10%. Values for sewer and water purposes are a modification of converted values for school purposes. The first step in calculating these values is to convert the school base using the appropriate class percentages. Second, deduct from the converted total: a) converted B.C. Hydro values; b) converted values for commercial and industrial machinery and equipment; and c) converted utility values subject to section 407 of the Municipal Act.

2.3.5 Amendment of Agreements and Formulas

Provision has been made in the Property Tax Reform Acts (Nos. 1 and 2) to amend all documents affected by the change to assessment based on actual values. Basically, the legislation enables the restoration of the original intent of these documents. Where an act or the letters patent of a municipality or regional district authorizes apportionment, tax or tax base sharing arrangements based on real property values, the Minister of Municipal Affairs may, by regulation, amend the arrangements or the values for the purpose of continuing the arrangements according to their original intent. Note that the above applies to, among other things, section 492 of the Municipal Act concerning business taxation.

3.0 RATE SETTING FOR GENERAL MUNICIPAL PURPOSES

3.1 Application

This chapter applies only to rate setting for general municipal purposes as provided for by the Municipal Act section 273(a). Rate setting procedures for other purposes, such as municipal debt, municipal specified areas, regional districts and so forth, are dealt with in the succeeding chapter. For the purposes of general municipal taxation, municipal officials have almost complete discretion to fix appropriate tax rates given: a) a specific amount to be raised from taxation; b) the general municipal purposes tax base as determined by the Assessment Authority; and c) some municipally-determined tax distribution policy. The sections which follow describe in some detail both the mechanics of choosing variable tax rates and the policy issues surrounding the tax distribution decision.

3.2 Municipal Budget and Fiscal Policy

This guide is not aimed at the municipal budget process. Its primary purpose, instead, is to reconcile the revenue requirements of the municipal budget with the new obligation to distribute the resulting tax burden fairly across the different property classes within the municipality. In essence, this guide begins where the budget process ends. However, the issue of fair distribution of the tax burden cannot be separated neatly from the fundamental issue of the size of the tax burden itself. While this latter issue is part of the budget process, brief commentary on this aspect of fiscal policy is in order here.

Simply stated, the best property tax is the least property tax needed to meet revenue requirements. Property taxes are but one of three basic sources of municipal revenue. In

addition to real property taxation, municipalities have these sources:

- **grants:** senior government transfers such as revenue sharing;
- **user charges, benefit levies and business taxes:** all internal revenues not including the ad valorem general municipal tax.

It is an elementary point of fiscal policy that revenues other than the general property tax should be maximized. The ad valorem general property tax, the residual revenue source, should always be the minimum amount necessary to meet budgeted requirements after first deducting grant and other internal revenues. In terms of practical advice, it is recommended that, as part of each budget review, close attention be paid to grant and other internal revenues. It is especially important that user charge and benefit levy systems be scrutinized periodically to ensure that their potential is fully exploited (without, of course, compromising social or other objectives such as access to services).

3.3 Municipal Tax Base

The tax base for general municipal purposes will be based on a copy of the authenticated assessment roll provided by the Assessment Authority. The general municipal purposes tax base will be equivalent to actual value less exemptions. Municipal officials must have available a listing of net taxable values for eight of the nine property classes established under the Assessment Act, the one exception being class 4 machinery which is not taxable for municipal purposes. Appendix one gives the statutory definitions of each property class. Municipal officials are alerted to the significant changes in assessment practices introduced beginning in 1984. These changes were discussed in section 2.2 of this guide.

3.4 Tax Distribution Policy

The key difference between the old system of uniform tax rates and the new system of variable tax rates is the introduction of a new decision. Whereas prior to 1983 municipalities needed to be concerned only with the overall budget and the overall tax rate, now they must also be concerned with the distribution of taxes between various property classes. The variable tax rate system, established by section 273.1 of the Municipal Act, enables and obliges municipalities to make a tax distribution decision (figure three). In effect, they must determine the proportion of taxes to be contributed by each property class. Tax distribution is primarily a policy, not a technical, decision. The subsequent section of this guide examines the nature of this policy decision.

The new property tax legislation authorizes setting different property tax rates for each of the eight property classes taxable for general municipal purposes. In general the same property tax rate must apply to every parcel lying within a defined property class. The only exceptions to this rule concern municipalities whose letters patent provide for different general purpose tax rates to be levied in different sectors or geographic areas of the municipality. Section 21 of the Property Tax Reform Act (No. 1) and section 30 of the Property Tax Reform Act (No. 2) provide for a continuation of this practice wherever it occurs. Affected municipalities should recognize that their letters patent, to some extent, act as a constraint on selecting a tax distribution policy and should consult the Ministry of Municipal Affairs for specific advice.

Figure Three. Office Consolidation, Municipal Act
Sections 273.1

Variable property tax rate system

273.1 (1) In this section

"property class" means a class of property prescribed by the Lieutenant Governor in Council under section 26 of the Assessment Act;

"variable tax rate system" means a system under which individual tax rates are determined and imposed for each property class.

(2) Notwithstanding the provisions of any Act or letters patent, where a council imposes, by bylaw, tax rates on taxable land and improvements based on the assessed value

(a) for general municipal purposes, or

(b) for other than general municipal purposes,

the council shall adopt a variable tax rate system.

(3) Without limiting the applications of subsection (2), subsection (2) applies to a bylaw adopted

(a) for the purposes of providing money required for one or more objects referred to in section 273, or

(b) under section 674.

3.5 Setting Variable Tax Rates

3.5.1 Tax Policy Objectives

The variable tax rate system requires that municipalities select tax policy objectives. More specifically, municipalities must consider how they wish the general municipal property tax burden to be distributed among property classes. A new decision-making opportunity is provided to municipal officials, and it is important that the nature and implications of their tax policy decisions be understood clearly.

As a first step, municipalities need to select general municipal tax policy objectives. Two possible objectives are the following:

- **stability:** a municipality may wish to achieve stability of local taxes from year to year. Stability can be defined in a number of ways. For example, it can be expressed as the stability of the effective tax rate on each property class. Alternatively, it can mean the share of the tax burden borne by each property class. Stability will be of particular concern in jurisdictions where the assessed values of the various property classes are changing at different rates.
- **equity:** a municipality may wish to provide tax relief for particular sectors for equity or fairness reasons. For example, it may be desirable that property taxes be shifted from property classes which are experiencing economic problems or are bearing a disproportionate share of the tax burden.

Stability and equity are two of a number of possible objectives. Other equally viable objectives or combination of objectives presumably exist. The key observation is that municipal officials must adopt **some** tax policy objective, whether it be stability, equity or something else.

In order to analyse the implications of a particular policy objective it is necessary to have a starting point. It is

important to be able to compare the implications of this year's tax distribution policy with the situation prevailing in previous years. It is also important to look to the future: to consider and plan for probable or desirable changes in tax distribution in upcoming years. A minimum of four benchmarks for evaluation are recommended. These are:

- the municipal tax base by property class;
- the effective tax rate by property class;
- the dollar amount of property tax paid by each class; and
- the percentage share of total tax revenues borne by each property class.

The usefulness of each of these benchmarks is discussed in the following section.

3.5.2 Benchmarks for Evaluation

Municipal officials should consider the past and, to the extent possible, plan for the future in setting tax rates for general municipal purposes. Consideration should be given to budgets, tax bases, tax shares and tax rates. With respect to the needed historical analysis, municipal officials can focus on the last fiscal year, a series of years or some base year not necessarily the last. The choice as to which year or years is to be the base is a local one. The discussion below looks at the four recommended benchmarks, focusing on the rationale for each and associated technical problems.

Tax base. Despite the introduction of a two-year assessment cycle, the municipal tax base will continue to change from year to year. Municipal officials will want, each year, to compare the current tax base for each property class with corresponding figures from one or more previous years. Officials will presumably also want to consider expected changes in the tax base in future years, changes which could arise from a major new development or a permanent industrial closure, for example.

The introduction of the two-year assessment cycle means that, beginning in the 1986 tax year, the municipal tax base for even numbered years will have to be computed from information contained in two rolls: a) the full roll from the previous odd numbered year; b) the revised roll prepared for the current, even numbered year. The Assessment Authority will make this reconciliation on behalf of all municipalities. Municipalities will therefore continue to receive annually a complete roll for tax purposes, despite the introduction of the two-year assessment cycle.

In order to facilitate year-to-year tax base comparisons, municipalities may wish to assess the implications of new construction -- that is, increases to the stock of real property -- appearing on the current roll. To facilitate this, the Ministry of Municipal Affairs will provide municipalities with an analysis of annual new construction activity. This analysis will be especially useful where municipal officials wish to eliminate the effects of market price volatility while allowing some change in tax shares to reflect stock changes due to new construction.

The new construction analysis will be based on **estimated** values of new construction as determined by the Assessment Authority. Municipal officials may therefore wish to discuss the data to be supplied with the local office of the Assessment Authority. In addition municipalities may wish to compare these provincial estimates with their own internal information derived from building permits and subdivision activity.

It should be emphasized that tax base comparisons must now always be done on the basis of **net actual or taxable value** rather than net assessed value. Since 1983 all tax rates levied on the general municipal base have been levied on net

actual value. Prior to 1983, however, this may not have been the case. Year-to-year tax base comparisons will therefore be valid if and only if net assessed values from years preceding 1983 are transformed to net actual value equivalents. Consult the previous edition of this guide, published March 1983, for pertinent transformation procedures.

Effective tax rates. Municipal officials will want to compare currently proposed tax rates for each property class with prior year tax rates. As a general rule, it is suggested that sharp changes in tax rates be avoided except where they are needed to remove the ill-effects of volatile property values. In a reasonably stable market, wild fluctuations in tax rates are damaging: they upset the predictability of the tax system and hurt large taxpayers in particular. For the most part, there are substantial grounds for moderating the rate of change of tax rates for each property class.

In all likelihood, most municipalities will want to examine multi-year trends in tax rates for each property class. In this event, it must be noted that all tax rates established under the old uniform tax rates system have to be transformed to variable tax rate equivalents for comparative purposes. Consult the previous edition of this guide, published March 1983, for pertinent transformation procedures.

Absolute tax share. Municipal officials will want to compare the actual amount of taxes proposed to be collected from each property class with amounts collected in previous years. Some municipalities may not have an estimate of the tax revenue from each of the eight property classes for years prior to 1983. If this is the case, simply take the

effective tax rate applied in a previous year and multiply this by the total net actual or taxable value calculated for each property class.

Percentage tax share. Municipal officials may wish to compare the relative or percentage share of taxes contributed by each property class. It is important to differentiate absolute and relative share because a particular tax distribution policy objective may have different effects on each. The absolute taxes paid by a particular class may increase but the percentage may fall (and vice versa).

3.5.3 Tax Rate Limitations

The new property tax legislation has abolished the old tax rate limitations: respectively 30, 40 or 50 mills for villages, towns and cities or districts. The amended section 274 allows the province, by order-in-council, to prescribe appropriate tax rate limitations should the need ever arise (see figure four). At this time, there are no tax rate limitations which affect general municipal taxation.

3.5.4 Illustration

This section illustrates the discussion in subsection 3.5.2 with a numerical example. It demonstrates how, in a hypothetical municipality, historical benchmarks may be used as an aid to choosing a preferred variable tax rate schedule. Though the illustration is historical, it should be noted that looking ahead is also important; hindsight alone is not enough.

Previous year data. Tax data from the previous year for this hypothetical municipality are shown in figure five.

Figure Four. Office Consolidation, Municipal Act
Section 274

Limits on variable tax
rate system

274. (1) The Lieutenant Governor in Council may make regulations in respect of the variable tax rate system referred to in section 273.1

(a) prescribing limits on tax rates,

(b) prescribing relationships between tax rates,

(c) prescribing formulas for calculating the limits or relationships referred to in paragraphs (a) and (b), and

(d) allowing the Inspector under prescribed circumstances to vary, by order, the limits, relationships or formulas established under paragraph (a), (b) or (c).

(2) The Lieutenant Governor in Council may, under subsection (1), prescribe different tax limits, relationships or formulas for each class of property, different municipalities or different classes of municipality.

(3) The Lieutenant Governor in Council may, under subsection (1), make different regulations for

(a) the taxation of land and improvements based on assessed value, for general municipal purposes, including, but not limited to, taxation under section 273 (a) and (b) and 674, and

(b) the taxation of land and improvements, based on assessed value, for other than general municipal purposes, including, but not limited to, taxation under section 273 (c), (d) and (e).

Figure Five. Illustration: Previous Year's Data

Property Class	Net Taxable Value ($000)	Absolute Tax Share ($)	Percent Tax Share ($)	Tax Rate	Class Multiple
1. Residential	6 000	24 000	24.9	4.00	1.00
2. Utilities	1 000	14 000	14.6	14.00	3.50
3. Forestry	0	0	0	4.00	1.00
4. Machinery	N/A	N/A	N/A	N/A	N/A
5. Industrial	2 000	27 200	28.3	13.60	3.40
6. Business	3 000	29 400	30.6	9.80	2.45
7. Tree Farm	0	0	0	8.00	2.00
8. Seasonal	200	800	0.8	4.00	1.00
9. Farm	200	800	0.8	4.00	1.00
TOTAL	12 400	96 200	100.0	----	----

Notes:
1. Tax rates are expressed in dollars of tax per thousand dollars of taxable value.
2. A definition of the term "class multiple" is found in section 4.2 of this guide.

The net taxable value of real property in the year previous is given as $12.4 million. The amount raised by taxation was $96 200, distributed among the eight taxable property classes as shown.

Current year data. Assume that the net taxable values for the current year are as shown in figure six. Inspection reveals that the tax base has declined overall some 2.8% but different property classes show different trends. Assume further that municipal officials have agreed upon a 3% budget increase in the current year, increasing the amount to be raised by taxation to $99 000. Notice that the object of this illustration is to fill in the vacant (shaded and numbered) columns in figure six. Municipal officials have full discretion in this task, subject only to minor limitations and constraints discussed earlier in this guide at section 3.4.

Tax distribution policy. Say that this hypothetical municipality is considering two possible tax distribution policies for the current year. One policy is to achieve year-to-year stability defined in terms of the percentage share of property taxes collected from each property class. In other words, the focus would be the column numbered 2 in figure six. The alternative under consideration is once again to achieve stability, this time defined in terms of relative tax rates levied on each property class. This would shift the focus to the column numbered 3. (Several other tax distribution policies are conceivable, of course; these two are offered for illustrative purposes only.)

Evaluation of tax distribution. The effects of the two alternative tax distribution policies are contrasted in figures seven and eight. The focus of figure seven is percentage tax share. It shows how year-to-year stability can be achieved in that respect. Notice that percentage

Figure Six. Illustration: Current Year Data Compared to Previous Year Data

Property Class	Net Taxable Value ($000)		Absolute Tax Share ($)		Percent Tax Share ($)		Effective Tax Rate ($ per thousand)	
	Previous	Current	Previous	Current	Previous	Current	Previous	Current
1. Residential	6 000	5 500	24 000		24.9		4.00	
2. Utilities	1 000	1 100	14 000		14.6		14.00	
3. Forestry	0	0	0		0		4.00	
4. Machinery	N/A	N/A	N/A		N/A		N/A	
5. Industrial	2 000	2 150	27 200	1	28.3	2	13.60	3
6. Business	3 000	2 900	29 400		30.6		9.80	
7. Tree Farm	0	0	0		0		8.00	
8. Seasonal	200	195	800		0.8		4.00	
9. Farm	200	205	800		0.8		4.00	
TOTAL	12 400	12 050	96 200	99 000	100.0	100.0	------	------

Notes:

1. Tax rates are expressed in dollars of tax per thousand dollars of taxable value.
2. Ideally, municipal officials should compare more than one previous year with the current year in order that a better appreciation can be gained of overall trends. This illustration depicts a single previous year for simplicity reasons only.

Figure Seven. Illustration: Effects of Stable Percentage Tax Share Objective

Policy Objective: stable percentage tax share	A		B		C		D	
	Net Taxable Value ($000)		Absolute Tax Share ($)		Percent Tax Share ($)		Effective Tax Rate ($ per thousand)	
	Previous	Current	Previous	Current	Previous	Current	Previous	Current
1. Residential	6 000	5 500	24 000	24 651	24.9	[illegible]	4.00	4.48
2. Utilities	1 000	1 100	14 000	14 454	14.6	[illegible]	14.00	13.14
3. Forestry	0	0	0	0	0.0	[illegible]	4.00	10.00
4. Machinery	N/A	N/A	N/A	N/A	N/A	[illegible]	N/A	N/A
5. Industrial	2 000	2 150	27 200	28 017	28.3	[illegible]	13.60	13.03
6. Business	3 000	2 900	29 400	30 294	30.6	[illegible]	9.80	10.45
7. Tree Farm	0	0	0	0	0.0	[illegible]	8.00	10.00
8. Seasonal	200	195	800	792	0.8	[illegible]	4.00	4.06
9. Farm	200	205	800	792	0.8	[illegible]	4.00	3.86
TOTAL	12 400	12 050	96 200	99 000	100.0	100.0	------	------

Notes:

The calculations for arriving at the variable tax rates in figure seven are as follows:

1. The objective is to achieve a stable distribution of taxes, defined in terms of percentage share of taxes collected from each property class. Hence the percentage tax shares for the current year are the same as for the previous year and should be entered in column "C".
2. The revenue target for the current year -- $99 000 -- should be apportioned to each of the eight property classes according to the percentages in column "C" and entered in Column "B".
3. The current tax rate for each property class can be calculated by dividing the current absolute tax share for each class by net taxable values expressed in thousands. For example, divide 24 651 by 5 500 to obtain the residential tax rate of $4.48.
4. Vacant classes 3 and 7 are assigned tax rates of $10.00 arbitrarily. See section 3.6 of this guide.

Figure Eight. Illustration: Effects of Stable Effective Tax Rate Objective

Policy Objective: stable effective tax rates	A		B		C		D	
	Net Taxable Value ($000)		Absolute Tax Share ($)		Percent Tax Share ($)		Effective Tax Rate ($ per thousand)	
	Previous	Current	Previous	Current	Previous	Current	Previous	Current
1. Residential	6 000	5 500	24 000	22 550	24.9	22.8	4.00	
2. Utilities	1 000	1 100	14 000	15 785	14.6	15.9	14.00	
3. Forestry	0	0	0	0	0.0	0.0	4.00	
4. Machinery	N/A	N/A	N/A	N/A	N/A	N/A	N/A	
5. Industrial	2 000	2 150	27 200	29 949	28.3	30.3	13.60	
6. Business	3 000	2 900	29 400	29 116	30.6	29.4	9.80	
7. Tree Farm	0	0	0	0	0.0	0.0	8.00	
8. Seasonal	200	195	800	800	0.8	0.8	4.00	
9. Farm	200	205	800	840	0.8	0.8	4.00	
TOTAL	12 400	12 050	96 200	99 000*	100.0	100.0	------	------

* Note: total is rounded.

Notes:

The calculations for arriving at the variable tax rates in figure eight are as follows:

1. To calculate current tax rates which maintain year-to-year stability defined in terms of relative effective tax rates, it is necessary to calculate previous year "class multiples". Class multiples for the previous year are defined as the general municipal tax rate for each property class expressed as a multiple of the class 1 residential tax rate.
2. Once previous year class multiples for each property class have been computed, it is possible to calculate the tax rates shown in column "D". See the 5-step procedure given in section 4.4 and figure ten of this guide for detailed procedures.
3. Vacant classes 3 and 7 are assigned tax rates in keeping with the recommendation of section 3.6 of this guide.

shares are exactly constant between years. The variable tax rates that would result are shown. Figure eight focuses on relative effective tax rate and achieves stability defined in that fashion.

Notice these significant differences in the implications of the alternative tax distribution policies. In figure seven stability is achieved with respect to tax shares but not with respect to tax rates; in figure eight the reverse is true. In figure seven some tax rates rise and others fall; in figure eight tax shares rise or fall but the tax rate increase is equal for all property classes. In figure seven the relative tax rates between classes are different in the current year compared to the previous year; in figure eight relative tax rates remain constant. Clearly different tax distribution policies can produce markedly different variable tax rate schedules.

Choosing a variable rate schedule. Having calculated the effects of alternative tax distribution policies, municipal officials finally must choose a preferred variable tax rate schedule. This is an extremely important policy question for which, like most policy questions, there is no right or wrong answer. Implications must be weighed and a choice made. Always municipal officials should bear in mind the merits of equity and stability in making this choice.

3.6 Adopting a Rates Bylaw

After completing the analysis outlined in section 3.5, municipal officials can proceed in a conventional fashion to adopt a rates bylaw under the Municipal Act section 273. All tax rates must be expressed in terms of dollars of tax per thousand dollars of net taxable value. A sample rates bylaw appears as appendix two to this guide.

Municipalities are urged to adopt a tax rate for each class of property, even if no taxable properties exist in a given property class. This is important because: a) there may be exempt properties liable for grants-in-lieu in a class showing no taxable values; and b) a supplementary assessment or an appeal could add a property to an otherwise vacant class. As a contingency, it is wise to have an entry in the rates bylaw to handle either event. Municipal officials should choose a tax rate for a vacant class that falls somewhere in the spectrum of tax rates for occupied property classes.

The variable tax rate system authorizes different tax rates for different classes of property. Within a particular property class, however, it is mandatory, with only a few exceptions, that any tax levied be uniform across all properties within a class. The only exceptions to this rule occur when letters patent specifically authorize affixing different tax rates within different sectors or geographical areas of a municipality. In this case, property classes may be stratified into two or more parts, each part with a different tax rate (see section 3.4 above).

4.0 RATE SETTING USING THE MATCHED CLASS MULTIPLE TECHNIQUE

4.1 Application

This chapter discusses rate setting procedures in cases where the "matched class multiple" technique must be used. In contrast to general municipal taxation, where municipal officials have almost complete rate setting discretion, this chapter deals with an area of local finance where there is no tax distribution discretion whatsoever. It is mandatory to conform to certain predetermined tax distribution policies. Operationally, the only requirement in this area of local finance is to calculate tax rates given: a) a requisition or specific amount to be raised for the given purpose; b) an actual value tax base; and c) the correct set of "class multiples."

4.2 Class Multiples

For the purposes set forth in section 4.3 below, tax rates may be calculated using the matched class multiple technique. A "class multiple" is defined as the tax rate for each property class expressed as a multiple of the tax rate for some chosen class, usually, but not always, the residential class.

When using the matched class multiple technique, municipal officials must use either: a) municipal class multiples based on general municipal tax rates; or b) provincial class multiples determined by provincial order-in-council. Municipal class multiples must be calculated from the general municipal tax rates set each year. Here are some examples of how to calculate class multiples:

- if the residential tax rate is $5.00 and the industrial tax rate is $15.00, then the industrial class multiple is 3.00;
- if the residential tax rate is $5.00 and the farm tax rate is $4.00, then the farm class multiple is 0.80;
- the residential class multiple, by definition, will always be 1.00.

The following section establishes when to use municipal as opposed to provincial class multiples.

4.3 Selecting the Proper Class Multiple

Figure nine shows, for a number of named purposes, the class multiples to use in calculating tax rates. The basic rule is that any tax levied on the general municipal base will be calculated using municipal class multiples. Taxes levied on the school, hospital or transit tax bases must employ provincial class multiples for tax rate calculation purposes. Provincial class multiples are issued annually by way of order-in-council. Municipal officials will be notified of provincial class multiples by the Ministry of Municipal Affairs early in each tax year.

4.4 Matched Class Multiple Technique

Once the appropriate set of class multiples has been calculated or identified, a tax rate schedule for each of the purposes listed in figure nine can be calculated. There are several steps involved. The following 5-step procedure demonstrates how to make the calculation.

STEP 1: for each property class, multiply the taxable assessment in thousands by the appropriate class multiple, municipal or provincial. Retain the products of these calculations for step 2.

Figure Nine. Selecting the Proper Class Multiple

Purpose [Municipal Act section]	Municipal Class Multiple	Provincial Class Multiple
Municipal debt on general base [s275(1)]	X	
Municipal specified area on general base [s674(3)]	X	
Regional district requisition on general base [s275(4)]	X	
Regional district requisition on hospital base [s792]		X
Improvement district requisition on general base [s275(3)]	X	
Improvement district requisition on hospital base [s833(6)]		X
Transit requisition on hospital base [BC Transit Act s11]		X
Transit requisition on transit base [BC Transit Act s12]*		X
Regional hospital district requisition on hospital base [s275(2)]		X
Other requisitions on general base	X	
Other requisitions on hospital base		X

* Tax levied on a unique tax base defined in the B.C. Transit Act sections 12(13) and 12(14) and accompanying regulations.

STEP 2: add the products calculated in step 1. Retain the sum of this calculation for step 3.

STEP 3: divide the revenue required for the particular purpose by the sum calculated in step 2. The quotient is the tax rate to be levied for class 1 residential property.

STEP 4: for non-residential property classes 2 through 9, multiply the residential tax rate by the class multiples for the remaining property classes. The products of these calculations are the tax rates to be levied for property classes 2 through 9.

STEP 5: verify the accuracy of calculations in steps 1 through 4 by calculating the revenue yield of the various tax rates. The sum of therevenues from each property class should equal the revenue required.

These procedures are illustrated in figure ten.

In the case of transit taxation using the transit tax base -- that is, taxation under B.C. Transit Act sections 12(13) and 12(14) -- a minor amendment in this five-step procedure is required. The section 12 transit tax base contains only property classes 2, 5 and 6. The matched class multiple technique may still be used in this case, but at step 3 in the procedure the base is class 6 commercial property rather than class 1 residential property. Further, step 4 should be amended to read "for property classes 2 and 5, multiply the commercial tax rate by the class multiples for classes 2 and 5. Procedures for calculating transit tax rates under section 12(13) and 12(14) are otherwise identical.

Figure Ten. Illustration: Rate Setting Using the Matched Class Multiple Technique

Assumptions: In this example, a tax rate schedule for debt purposes in a hypothetical municipality will be calculated. Assume $20 000 is the amount to be raised. Assumptions concerning assessment and class multiples appear in step 1.

Step 1

Class	Given Taxable Values ($'000)	Given Class Multiples	Product of Values x Multiple
1. Residential	6 000	1.0	6 000
2. Utilities	500	3.0	1 500
3. Forestry	0	3.2	0
4. Machinery	N/A	N/A	N/A
5. Industrial	1 000	2.8	2 800
6. Business	2 000	2.0	4 000
7. Tree farm	0	5.0	0
8. Seasonal	300	1.0	300
9. Farm	200	1.0	200

Step 2

Sum of final column of step 1 . . . . . 14 800

Step 3

Divide revenue required ($20 000) by sum calculated in step 1 (14 800); the quotient is the residential tax rate . . . . . $1.35 per thousand

Step 4

Class	Given Class Multiples	Tax Rate Schedule ($ per thousand)
1. Residential	1.0	1.35
2. Utilities	3.0	4.05
3. Forestry	3.2	4.32
4. Machinery	N/A	N/A
5. Industrial	2.8	3.78
6. Business	2.0	2.70
7. Tree farm	5.0	6.76
8. Seasonal	1.0	1.35
9. Farm	1.0	1.35

Step 5

Revenue yield of tax rate = revenue required $20 000

4.5 Adopting a Rates Bylaw

Using the matched class multiple technique, a tax rate schedule for each of the purposes listed in figure nine can be determined. Municipal officials may then proceed in a conventional fashion to adopt a rates bylaw under the Municipal Act section 273. Most municipalities will simply adopt a rates bylaw with a schedule containing as many columns as there are taxable purposes. Consult section 3.6 for further advice on rates bylaw adoption procedures, including advice on setting rates for vacant classes.

5.0 SCHOOL, BCAA AND MFA TAXATION

5.1 Application

This chapter discusses procedures in areas not covered in the previous two chapters. Specifically, the subject of this chapter is taxation for school, Assessment Authority and Municipal Finance Authority purposes. With respect to these agencies, the key point is that municipalities will be notified each year of the actual tax rates to be applied. Municipalities merely act as tax collectors and play no role in rate setting.

5.2 Financial Arrangements

Both the Assessment Authority and the Municipal Finance Authority are empowered to impose, by bylaw, tax rates sufficient to meet the requirements of the operating funds of each authority. Upon adoption, each authority is required to send to every municipal collector a certified copy of the bylaw showing the rates imposed. Every collector must place the imposed rates on the tax roll. Remittance is governed by the Assessment Authority Act and the Municipal Finance Authority Act respectively.

For school taxes, different arrangements are in place for residential school taxes and non-residential school taxes. With respect to residential school taxes, the annual budget for each school district must be adopted on or before May 1 of each year. The budget must show the amounts to be raised within each constituent part of the school district and the residential tax rate. When adopted, a certified copy of the budget must be sent to the council of each municipality comprised in the school district. Remittance to the school district is governed by section 14 of the Education (Interim) Finance Act.

For non-residential school taxes, collectors in each municipality will, on or before May 1 of each year, be notified by the Minister of Finance of the amount to be raised by non-residential taxation and the tax rates for each non-residential property class. Remittance to the provincial government is governed by section 20 of the Education (Interim) Finance Act.

5.3 Taxation Procedures

At set times in each tax year, a schedule of tax rates for each property class will be fixed for school, BCAA and MFA purposes by the respective taxing authority. Municipalities will be notified of the selected rates and, in the case of school taxes only, of the amounts to be raised by residential and non-residential taxation. The stated tax rates must be added, unaltered, to the tax roll. Municipalities are obliged to: a) levy the stated tax rates; and b) remit to the respective taxing authority the amount produced by the application of the stated rate to the appropriate net taxable values, either school or hospital, as required. There is no legal requirement that rates for school, BCAA and MFA purposes be expressed in an annual rates bylaw under Municipal Act section 273.

APPENDIX ONE: DEFINITIONS OF OIC PRESCRIBED CLASSES OF PROPERTY

DEFINITIONS OF PRESCRIBED CLASSES OF PROPERTY

Class 1 - residential

1. Class 1 property shall include only:

(a) land or improvements, or both, used for residential purposes, including single family residences, duplexes, multi-family residences, apartments, condominiums, mobile homes, nursing homes, rest homes, summer and seasonal dwellings, bunkhouses, cookhouses and ancillary improvements compatible with and used in conjunction with any of the above, but not including hotels or motels other than the portion of the hotel and motel building occupied by the owner as his residence;

(b) improvements on land classified as a farm and used in connection with the farm operation, including the farm residence and outbuildings;

(c) land having no present use and which is neither specifically zoned nor held for business, commercial, forestry or industrial purposes.

Class 2 - utilities

2. Class 2 property shall include only land or improvements, or both, used or held for the purposes of, or for purposes ancillary to, the business of

(a) transportation by railway,

(b) transportation, transmission or distribution by pipeline,

(c) communication by telegraph or telephone, including transmission of messages by means of electric currents or signals for compensation,

(d) generation, transmission or distribution of electricity, or

(e) receiving, transmission and distribution of closed circuit television;

but does not include that part of land or improvements or both

(f) included in Classes 1, 4 or 8,

(g) used as an office, retail sales outlet, administration building or purpose ancillary thereto, or

(h) used for a purpose other than a purpose defined in paragraphs (a) to (e) of this class.

Class 3 - forestry

3. Class 3 property shall include only land classified as timber land, forest land or wild land used for forestry purposes.

Class 4 - machinery and equipment

4. Class 4 property shall include only any of the improvements included in the definition of improvements as defined for purposes other

than for general municipal and Provincial taxation purposes under the Municipal Act, Vancouver Charter and Taxation (Rural Area) Act, and not included in the definition of improvements as defined for general municipal and Provincial taxation purposes under the Municipal Act, Vancouver Charter and Taxation (Rural Area) Act.

Class 5 - industrial

5. Class 5 property shall include only land or improvements, or both, used or held for the purpose of extracting, processing, manufacturing, transporting or storing of any products, and without limiting the generality of the foregoing includes land or improvements, or both, used or held for the purpose of

(a) pulp and paper mills, sawmills, plywood mills, shinglemills and other industrial operations used in processing, storing or manufacturing forest products or in the growing or harvesting of forest crops other than land in Classes 3 and 7,
(b) the extraction, transportation, refining and storage of petroleum and natural gas,
(c) mining and other extractive industries, including milling, smelting, refining and storage,
(d) primary metal industries, including iron and steel mills, pipe mills, foundries, metal rolling and casting and extruding,
(e) the manufacture, synthesis or refining of chemicals and chemical products,
(f) the distilling, brewing or making and storage of alcoholic beverages,
(g) the manufacture and storage of cement, concrete, bricks and similar products,
(h) deep sea shipping facilities and docks,
(i) ship and boat building and repair,
(j) grain elevators,
(k) the manufacture of rubber, plastic and leather products,
(l) textile and knitting mills, or
(m) the manufacture of glass and glass products;

but not including those lands or improvements, or both,

(n) included in Classes 2 and 4,
(o) used principally as an outlet for the sale of a finished product to a purchaser for purposes of his own consumption or use and not for resale in either the form in which it was purchased or in any other form,
(p) used for processing, manufacturing or storage of food or non-alcoholic beverages.
(q) used or held for storage other than those used or held for a purpose ancillary to or in conjunction with land or improvements or both used or held for
    (i) the purpose of extracting, processing, manufacturing or transporting of any products, or
    (ii) the purpose referred to in paragraph (h), (i) or (j), or
(r) used primarily for the temporary storage of household effects in transit where a service fee or service charge is imposed for the storage.

Class 6 - business and other

6. Class 6 property shall include all land and improvements not included in Classes 1 to 5 and 7 to 9.

Class 7 - tree farm

7. Class 7 property shall include only land classified as tree farm land.

Class 8 - seasonal resort, recreational property and fraternal organization

8. Class 8 property shall include only:

(a) that part of any land or improvements, or both, used to provide overnight sleeping accomodation, including hotels, motels, trailer parks, recreational vehicle parks, campgrounds and resorts where, during an offseason period of 150 days a year or more,

(i) the accomodation is closed, or

(ii) at least 1/2 of the gross rental income from the accomodation is derived from rent paid by tenants residing in the accomodation for periods comprising 28 consecutive days or more;

(b) land used as an outdoor recreational facility for one or more of the following activities:

(i) golf;

(ii) skiing;

(iii) tennis;

(iv) ball games of any kind;

(v) lawn bowling;

(c) that part of any land and improvements used or set aside for use as a meeting hall for a nonprofit fraternal organization of persons of either or both sexes, together with the facilities necessarily incidental to that use, for at least 150 days in the year ending on September 30, of the calendar year preceding the calendar year for which the assessment roll is being prepared, not counting any day in which the land and improvements so used or set aside are also used for

(i) any purpose by a person or organization that is not a nonprofit fraternal organization,

(ii) entertainment where there is an admission charge, or

(iii) the sale or consumption, or both, of alcoholic beverages.

Class 9 - farm

9. Class 9 property shall include only land classified as farm land.

APPENDIX TWO: SAMPLE ANNUAL TAX RATES BY-LAWS USING VARIABLE TAX RATES

[Corporate Name of Municipality]

BY-LAW NO. _____

Being a by-law for the levying of rates for Municipal, Hospital, Improvement District and Regional District purposes for the year 19__.

The Council of [Corporate Name of Municipality], in open meeting assembled, enacts as follows:

1. The following rates are hereby imposed and levied for the year 19__:

   (a) For all lawful general purposes of the municipality on the value of land and improvements taxable for general municipal purposes, rates appearing in column "A" of the Schedule attached hereto and forming a part hereof.

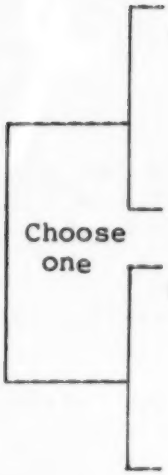
   (b) For debt purposes on the value of land and improvements taxable for general municipal purposes, rates appearing in column "B" of the Schedule attached hereto and forming a part hereof.

   (c) For hospital purposes on the value of land and improvements taxable for regional hospital district purposes, rates appearing in column "C" of the Schedule attached hereto and forming a part hereof.

Choose one

   (d) For purposes of the [Corporate Name of Improvement District] on the value of land and improvements taxable for general municipal purposes, rates appearing in column "D" of the Schedule attached hereto and forming a part hereof.

   (d) For purposes of the [Corporate Name of Improvement District] on the value of land and improvements taxable for regional hospital district purposes, rates appearing in column "D" of the Schedule attached hereto and forming a part hereof.



(e) For purposes of the [Corporate Name of Regional District] on the value of land and improvements taxable for general municipal purposes, rates appearing in column "E" of the Schedule attached hereto and forming a part hereof.

(e) For purposes of the [Corporate Name of Regional District] on the value of land and improvements taxable for regional hospital district purposes, rates appearing in column "E" of the Schedule attached hereto and forming a part hereof.

(f) For the purposes of the [Name of Specified Area] on the value of land and improvements taxable for general municipal purposes, rates appearing in column "F" of the Schedule attached hereto and forming a part hereof.

2. The minimum amount of taxation upon a parcel of real property shall be One Dollar ($1.00).

3. This by-law may be cited as "Tax Rates By-law No. _____, 19___".

READ a first time this _____ day of_____, 19___.

READ a second time this _____ day of_____, 19___.

READ a third time this _____ day of_____, 19___.

RECONSIDERED and FINALLY PASSED and ADOPTED this _____ day of_____, 19___.

_____ _____

Mayor Clerk

Certified a true copy of
By-law No. _____, as adopted.

_____

Clerk

SCHEDULE

Property Class	Tax Rates (dollars of tax per $1000 taxable value)					
	A General Municipal	B Debt	C Regional Hospital District	D Improvement District (if necessary)	E Regional District	F Specified Area (if necessary)
1. Residential	$	$	$	$	$	$
2. Utility						
3. Forestry						
4. Machinery	N/A	N/A				N/A
5. Industrial						
6. Business						
7. Tree farm						
8. Seasonal						
9. Farm						